

BANK INDONESIA REGULATION
NUMBER 20/13/PBI/2018
ON
RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS

BY THE BLESSINGS OF ALMIGHTY GOD

GOVERNOR OF BANK INDONESIA,

- Considering :
- a. that to achieve rupiah stability, a liquid and efficient financial market is required to support national economic activities;
 - b. that a liquid and efficient financial market may be achieved through comprehensive development of derivative market with rupiah interest rate by observing the prudential principle;
 - c. that in developing the derivative market of rupiah interest rate, it is necessary to apply a comprehensive regulation through instrument enrichment, infrastructure development, and market credibility improvement;
 - d. that based on the foregoing considerations as referred to in letter a, letter b, and letter c, it is necessary to issue Bank Indonesia Regulation on Rupiah Interest Rate Derivative Transactions;

Observing : Law Number 23 of 1999 on Bank Indonesia (State Gazette of the Republic of Indonesia of 1999 Number 66, Supplement to State Gazette of the Republic of Indonesia Number 3843) as several times amended, last by Law Number 6 of 2009 on Establishment of Government Regulation in Lieu of Law Number 2 of 2008 on the Second Amendment to Law Number 23 of 1999 on Bank Indonesia becomes a Law (State Gazette of the Republic of Indonesia of 2009 Number 7, Supplement to State Gazette of the Republic of Indonesia Number 4962);

HAS DECIDED:

To enact : BANK INDONESIA REGULATION ON RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS.

CHAPTER I

GENERAL PROVISIONS

Article 1

In this Bank Indonesia Regulation:

1. Rupiah Interest Rate Derivative Transactions means a transaction based on a contract or payment agreement which value is a derivative of a rupiah interest rate.
2. Bank means a commercial bank conducting its business activities in a conventional manner, including a branch office of a bank domiciled overseas, excluding the office of a commercial bank incorporated in Indonesia and operating overseas.
3. Customer means an individual of Indonesian citizenship or any legal entity other than Bank domiciled in Indonesia and having a Taxpayer Identification Number.
4. Foreign Party means:
 - a. a foreign citizen;
 - b. a foreign legal entity or any other foreign institution;

- c. an Indonesian citizen with permanent resident status of another country and not domiciled in Indonesia;
 - d. office of a commercial bank incorporated in Indonesia operating overseas; or
 - e. office of a company incorporated in Indonesia domiciled overseas.
5. *Indonesia Overnight Index Average*, hereinafter referred to as IndONIA, means index of interest rate on unsecured lending and borrowing transactions in rupiah conducted by interbank for an overnight period in Indonesia.
6. *Jakarta Interbank Offered Rate*, hereinafter referred to as JIBOR, means the average of unsecured lending indicative interest rates which is offered and intended for transactions by a contributor bank to another contributor bank for rupiah lending in a certain term in Indonesia.

CHAPTER II

RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS

Part One

Scope of Rupiah Interest Rate Derivative Transactions

Article 2

- (1) Rupiah Interest Rate Derivative Transactions consist of:
- a. interest rate swap transactions;
 - b. forward rate agreement transactions;
 - c. interest rate option transactions;
 - d. interest rate futures transactions; and
 - e. other Rupiah Interest Rate Derivative Transactions.
- (2) The Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) constitute plain vanilla derivative transactions.

- (3) Further provisions on the Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) will be regulated in a Regulation of Member of Board of Governors.

Part Two

Participants

Article 3

- (1) Any Bank which may conduct Rupiah Interest Rate Derivative Transactions shall refer to the banking authority provisions on business activities of commercial banks based on the core capital.
- (2) A Bank may conduct Rupiah Interest Rate Derivative Transactions with:
 - a. Customer who meets certain classifications;
 - b. Foreign Party; and/or
 - c. other Bank.
- (3) Certain classifications of Customers as referred to in paragraph (2) letter a are specified under the following provisions:
 - a. any legal entity other than Bank must have minimum capital of Rp5,000,000,000.00 (five billion rupiah) and have been conducting their business activities for at least 12 (twelve) consecutive months; and
 - b. an individual Customer must have asset portfolio in the form of cash, current account (*giro*), savings, and/or deposit of at least Rp5,000,000,000.00 (five billion rupiah).
- (4) Further provisions on Customers who comply with the certain classifications as referred to in paragraph (3) will be regulated in a Regulation of Member of Board of Governors.

Part Three

Contract for Rupiah Interest Rate Derivative Transactions

Article 4

- (1) Any Bank conducting Rupiah Interest Rate Derivative Transactions with a Customer, Foreign Party, and/or any other Bank

as referred to in Article 3 paragraph (2) is required to conduct such transactions under a contract.

- (2) The contract as referred to in paragraph (1) consists of:
 - a. a main contract of transactions commonly used by market participants and/or issued by the relevant association; and
 - b. written confirmation indicating the occurrence of a transaction, which at least contains the following:
 1. contract number;
 2. transaction date, settlement period, and transaction due date;
 3. nominal value of transaction;
 4. counterparty's name;
 5. currency; and
 6. reference rate.
- (3) The obligation to use a main contract for transaction as referred to in paragraph (2) letter a is exempted for the following transactions:
 - a. between a Bank and its branch office;
 - b. between a Bank's branch offices; and
 - c. between the branch office of a Bank domiciled overseas and its headquarter or another branch office overseas.
- (4) Further provisions on the contract as referred to in paragraph (2) and exemption for the main contract use as referred to in paragraph (3) shall be regulated in a Regulation of Member of Board of Governors.

Part Four

Market Convention

Article 5

- (1) In conducting Rupiah Interest Rate Derivative Transactions, a Bank must follow the market convention.
- (2) Further provisions for the market convention as referred to in paragraph (1) will be regulated in a Regulation of Member of Board of Governors.

Part Five
IndONIA and JIBOR

Article 6

- (1) Any Bank conducting Rupiah Interest Rate Derivative Transactions in the form of overnight index swap transactions may refer to IndONIA.
- (2) Any Bank conducting Rupiah Interest Rate Derivative Transactions other than the overnight index swap transactions as referred to in paragraph (1) may refer to JIBOR.
- (3) Further provisions on the use of IndONIA as referred to in paragraph (1) and use of JIBOR as referred to in paragraph (2) shall be regulated in a Regulation of Member of Board of Governors.

Part Six
Nominal Value and Tenor

Article 7

- (1) A Bank conducts Rupiah Interest Rate Derivative Transactions at a certain nominal value and tenor.
- (2) The certain nominal value of a Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) shall be at least Rp1,000,000,000.00 (one billion rupiah).
- (3) The tenor of a Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) shall be 1 (one) week, 1 (one) month, 3 (three) months, 6 (six) months, 9 (nine) months, 12 (twelve) months, or any other tenors.
- (4) In the event of there is a change on in certain nominal value as referred to in paragraph (2) and certain tenor as referred to in paragraph (3), will be regulated in a Regulation of Members of Board of Governors.

Part Seven
Analysis of Requirements for
Rupiah Interest Rate Derivative Transactions

Article 8

- (1) Any Bank, which conducts Rupiah Interest Rate Derivative Transactions with a Customer and/or Foreign Party for the interest of the Customer and/or Foreign Party, is required to conduct analysis of requirements for Rupiah Interest Rate Derivative Transactions at least once prior to conducting such transactions.
- (2) The analysis of requirements for Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) shall at least contain:
 - a. classification of Customers as referred to in Article 3 paragraph (3);
 - b. objective of Rupiah Interest Rate Derivative Transactions;
 - c. economic activities that underlie the requirements of Rupiah Interest Rate Derivative Transactions;
 - d. type of Rupiah Interest Rate Derivative Transactions;
 - e. maximum nominal value of Rupiah Interest Rate Derivative Transactions; and
 - f. maximum period of Rupiah Interest Rate Derivative Transactions .
- (3) The economic activities that underlie the requirements of Rupiah Interest Rate Derivative Transactions as referred to in paragraph (2) letter c include the following activities:
 - a. investments in the form of deposits, negotiable certificates of deposits, commercial papers, bonds, and other domestic investments in rupiah;
 - b. loans in the form of credit in rupiah and/or securities issued in rupiah;
 - c. position of assets and/or liabilities; and/or
 - d. any other economic activities.

- (4) The analysis of requirements for Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) must be supported by relevant documents.
- (5) A Bank is required to administer the analysis of Rupiah Interest Rate Derivative Transactions and other supporting documents.

Article 9

The obligation to analyze the requirements of Rupiah Interest Rate Derivative Transactions as referred to in Article 8 paragraph (2) shall be exempted in the following events:

- a. A Bank conducts Rupiah Interest Rate Derivative Transactions on its own initiative; or
- b. Rupiah Interest Rate Derivative Transactions is conducted between banks (interbank).

Article 10

A Bank is required to review the analysis of requirements for Rupiah Interest Rate Derivative Transactions as referred to in Article 8 paragraph (1) periodically at least once a year.

Article 11

Further provisions on the analysis of requirements for Rupiah Interest Rate Derivative Transactions will be regulated in a Regulation of Member of Board of Governors.

CHAPTER III
SETTLEMENTS OF
RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS

Article 12

- (1) Rupiah Interest Rate Derivative Transactions may be settled through netting by each party who conduct the transaction for each payment period.
- (2) The Rupiah Interest Rate Derivative Transactions by each party for each payment period as referred to in paragraph (1) is required to be settled in rupiah.
- (3) In the event of default by one of the parties to a transaction, a Rupiah Interest Rate Derivative Transactions may be settled through close-out netting to the extent it is required or agreed under a contract and conducted prior to any insolvency decision issued by a court.
- (4) Further provisions on settlements of Rupiah Interest Rate Derivative Transactions as referred to in paragraph (1) and settlements of Rupiah Interest Rate Derivative Transactions arising from defaults as referred to in paragraph (3) shall be regulated in a Regulation of Member of Board of Governors.

CHAPTER IV
PRUDENTIAL PRINCIPLES AND RISK MANAGEMENT

Article 13

- (1) Any Bank conducting Rupiah Interest Rate Derivative Transactions is required to apply the prudential principles.
- (2) The obligation to apply the prudential principles as referred to in paragraph (1) shall at least take the following forms:
 - a. ethics in transactions (market code of conduct) or any other similar guidelines;

- b. transparency and information disclosure;
 - c. consumer protection; and
 - d. dispute resolution mechanism.
- (3) In applying the prudential principles as referred to in paragraph (2), a Bank must refer to the provisions issued by the competent authority and the laws and regulations.
- (4) A Bank is required to educate Customers and/or Foreign Parties on Rupiah Interest Rate Derivative Transactions.
- (5) Any employee or staff of a Bank conducting treasury activities is required to have a treasury certificate from an institution determined by Bank Indonesia.

Article 14

In conducting Rupiah Interest Rate Derivative Transactions, a Bank must apply the risk management specified in the provisions of the banking authority for the application of risk management by a bank.

CHAPTER V INFRASTRUCTURES OF RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS

Article 15

- (1) Infrastructures of Rupiah Interest Rate Derivative Transactions consist of:
- a. trading facility;
 - b. fund settlement system; and
 - c. data and information management system.
- (2) The trading facility as referred to in paragraph (1) letter a namely Bank Indonesia's Electronic Trading Platform (BI-ETP) or any other means of transaction implementation used in the money market.

- (3) The fund settlement system as referred to in paragraph (1) letter b namely overbooking, transfers interbank, or payment systems administered by Bank Indonesia.
- (4) The data and information management system as referred to in paragraph (1) letter c namely Bank Indonesia's transaction reporting system or any other systems determined by Bank Indonesia.

CHAPTER VI REPORTING

Article 16

- (1) Any Bank, which meets the criteria for conducting Rupiah Interest Rate Derivative Transactions as referred to in Article 3 paragraph (1) is required to submit a report on Rupiah Interest Rate Derivative Transactions through the reporting system determined by Bank Indonesia.
- (2) Provisions on reporting mechanism as referred to in paragraph (1) shall refer to the provisions of Bank Indonesia for reporting system of Bank Indonesia.

CHAPTER VII SUPERVISION

Article 17

- (1) Bank Indonesia supervise Rupiah Interest Rate Derivative Transactions conducted by Banks.
- (2) In conducting the supervision as referred to in paragraph (1), Bank Indonesia may coordinate with other competent authority.

- (3) The supervision as referred to in paragraph (1) includes:
 - a. offsite supervision; and/or
 - b. onsite supervision.
- (4) For the supervision purposes as referred to in paragraph (1), a Bank is required to provide and submit data, information, and/or details required by Bank Indonesia.
- (5) Any Bank is required to responsible for the accuracy of data, information, and/or details submitted to Bank Indonesia.
- (6) Bank Indonesia may assign any other party for and on its behalf to conduct the onsite supervision as referred to in paragraph (3) letter b.
- (7) Any party assigned for the onsite supervision as referred to in paragraph (6) is required to maintain confidentiality of data, information, and details obtained from the onsite supervision result.

CHAPTER VIII

ADMINISTRATIVE SANCTIONS

Article 18

- (1) Any Bank breaching the provisions as referred to in Article 12 paragraph (2) shall be subject to sanctions as regulated in Bank Indonesia Regulation on mandatory use of rupiah.
- (2) Any Bank breaching the provisions as referred to in Article 13 paragraph (5) shall be subject to sanctions as regulated in Bank Indonesia Regulation on treasury certification and the implementation of market code of conduct.
- (3) Any Bank breaching the provisions as referred to in Article 16 paragraph (1) shall be subject to sanctions as regulated in Bank Indonesia provisions on reporting system of Bank Indonesia.

Article 19

- (1) Any Bank breaching the provisions as referred to in Article 4 paragraph (1), Article 8 paragraph (1), Article 8 paragraph (5), Article 10, Article 13 paragraph (1), Article 13 paragraph (4), Article 17 paragraph (4), Article 17 paragraph (5), and/or Article 21 paragraph (1) shall be subject to administrative sanction in the form of a written warning.
- (2) Any party breaching the provisions as referred to in Article 17 paragraph (7) shall be subject to administrative sanction in the form of a written warning.
- (3) In the event that any bank has been sanctioned with 3 (three) written warnings within 1 (one) year for the breach of provision as referred to in paragraph (1), a recommendation will be given to the banking authority to impose a sanction on such a bank in the form of suspension of conducting new Rupiah Interest Rate Derivative Transactions for 6 (six) months.
- (4) Further provisions on the mechanism of sanction imposition as referred to in paragraph (1) will be regulated in a Regulation of Member of Board of Governors.

Article 20

Bank Indonesia may inform the sanction imposition as referred to in Article 19 paragraph (1) and/or Article 19 paragraph (2) in writing to the banking authority and/or any other relevant institutions.

CHAPTER IX

OTHER PROVISIONS

Article 21

- (1) In the event that a Bank plans to issue a new product in the form of a structured product pertaining to Rupiah Interest Rate Derivative Transactions, the Bank is required to submit information to Bank Indonesia upon receipt of an effective statement from the banking authority.

- (2) The information as referred to in paragraph (1) shall at least include:
 - a. name of the structured product;
 - b. tenor;
 - c. target customer(s);
 - d. standard notional amount;
 - e. reference rate;
 - f. payout;
 - g. transaction components; and
 - h. settlement mechanism.
- (3) The information as referred to in paragraph (1) shall be submitted in writing to Bank Indonesia no later than 14 (fourteen) working days upon receipt of an effective statement from the banking authority.

CHAPTER X TRANSITIONAL PROVISIONS

Article 22

- (1) Any Bank, which has conducted Rupiah Interest Rate Derivative Transactions prior to the enforcement of this regulation, may continue the Rupiah Interest Rate Derivative Transactions until the due date.
- (2) In the event that a Bank extends and/or conducts a new Rupiah Interest Rate Derivative Transactions, the Bank is required to abide by this regulation.

CHAPTER XI CLOSING PROVISIONS

Article 23

This Bank Indonesia Regulation comes into force from its promulgation date.

For public recognition, it is hereby ordered this Bank Indonesia Regulation be promulgated in the State Gazette of the Republic of Indonesia.

Issued in Jakarta
on 9 November 2018

BANK INDONESIA GOVERNOR,

SIGNED

PERRY WARJIYO

Promulgated in Jakarta
on 14 November 2018

MINISTER OF LAW AND HUMAN RIGHTS OF
THE REPUBLIC OF INDONESIA,

SIGNED

YASONNA H. LAOLY

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2018 NUMBER 201

ELUCIDATION
OF
BANK INDONESIA REGULATION
NUMBER 20/13/PBI/2018
ON
RUPIAH INTEREST RATE DERIVATIVE TRANSACTIONS

I. GENERAL

To perform the duty of Bank Indonesia in order to achieve and maintain rupiah stability, it is necessary to accelerate the achievement of liquid and efficient financial market, which will eventually support national economic activities. To achieve liquid and efficient financial market, it is necessary to develop a comprehensive rupiah interest rate derivative market by observing the prudential principles through enrichment of instrument variations, infrastructure development, and market credibility improvement. Therefore, it is necessary to issue regulation on Rupiah Interest Rate Derivative Transactions.

II. ARTICLE BY ARTICLE

Article 1

Sufficiently clear.

Article 2

Paragraph (1)

Letter a

The term “interest rate swap transaction” means a contract/agreement between 2 (two) parties to periodically exchange the flow of interest rate in rupiah during a contract period or at the completion of the contract based on a certain notional (principal) amount.

Interest rate swap transactions include transactions using overnight tenor interest rate for pricing, or referred to as overnight index swap transactions.

Overnight index swap transactions mean a contract/agreement between 2 (two) parties to periodically exchange flow of interest rate in rupiah during a contract period or at the completion of the contract based on a certain notional (principal) amount calculated on a daily compounding basis.

Overnight index swap transactions constitute interest rate swap transactions calculated on a daily compounding basis.

Letter b

The term “forward rate agreement transactions” means a contract/agreement between 2 (two) parties to exchange interest rate exposure in a certain notional amount in rupiah within a certain time in the future or for a certain period at an interest rate agreed during the contract initiation.

Letter c

The term “interest rate option transactions” means a contract/agreement between 2 (two) parties giving rights, instead of obligations, to a buyer to exchange flow of interest rate in rupiah agreed during the contract initiation, where a buyer may opt to exercise its rights at the end of or within a certain time during the contract period.

Letter d

The term “interest rate futures transactions” means a contract/agreement between 2 (two) parties to exchange the exposure of interest rate in rupiah within a certain time in the future, which reflected by the price difference of the underlying asset whose movement is affected by certain interest rate at a price agreed during the contract initiation.

Letter e

Sufficiently clear.

Paragraph (2)

Sufficiently clear.

Paragraph (3)

Sufficiently clear.

Article 3

Paragraph (1)

Sufficiently clear.

Paragraph (2)

Letter a

Sufficiently clear.

Letter b

Foreign parties as foreign individual mean people with citizenship other than Indonesian, including who has permanent residence permit or stay permit in Indonesia.

Foreign Parties as foreign legal entities or any other foreign institution means legal entities or foreign institution incorporated overseas, excluding:

1. branch office of a bank domiciled overseas;
2. foreign direct investment company; or
3. foreign legal entity with non-profit activities.

Letter c

Sufficiently clear.

Paragraph (3)

Letter a

The term “capital” means equity as specified in the financial accounting standard.

The minimum capital for a legal entity other than Bank will be calculated when a Bank analyzes the requirements of Customer’s transaction for the first time.

Letter b

Sufficiently clear.

Paragraph (4)

Sufficiently clear.

Article 4

Paragraph (1)

Sufficiently clear.

Paragraph (2)

Letter a

Examples of the main contract of transactions commonly used by market participants are issued among others by International Swaps and Derivatives Association (ISDA) Master Agreement, Master Agreement on Indonesian Derivatives (PIDI), counterparty agreement, or other contracts.

Letter b

Written confirmation indicating the occurrence of a transaction among others namely dealing conversation or Society of Worldwide Interbank Financial Telecommunication (SWIFT).

Paragraph (3)

Sufficiently clear.

Paragraph (4)

Sufficiently clear.

Article 5

Paragraph (1)

The term “market convention” means technical matters pertaining to Rupiah Interest Rate Derivative Transactions compiled and agreed by market participants through the industry association participants such as Indonesia Foreign Exchange Market Committee.

Paragraph (2)

Sufficiently clear.

Article 6

Paragraph (1)

IndONIA may be used among others as a fixing price of an overnight index swap transaction or to determine overnight index swap quotations.

Paragraph (2)

Sufficiently clear.

Paragraph (3)

Sufficiently clear.

Article 7

Sufficiently clear.

Article 8

Paragraph (1)

Sufficiently clear.

Paragraph (2)

Sufficiently clear.

Paragraph (3)

Letter a

Sufficiently clear.

Letter b

Sufficiently clear.

Letter c

The term “position of assets and/or liabilities” means assets and/or liabilities exposed to rupiah interest rate.

Letter d

The term “other economic activities” means economic activities exposed to rupiah interest rate.

Paragraph (4)

Examples of relevant documents namely financial statements, loan agreements, bond ownership evidence, balance sheets, forecast requirement of funding or investment pertaining to certain economic activities (feasibility study), and/or other documents.

Paragraph (5)

Sufficiently clear.

Article 9

Letter a

The term “on its own initiative” means a Bank conducts Rupiah Interest Rate Derivative Transactions to pass on transactions with Customers, Foreign Parties, or other Banks, or for hedging of the Bank’s assets and/or liabilities.

Letter b

Sufficiently clear.

Article 10

Review is conducted to apply the prudential principles.

Article 11

Sufficiently clear.

Article 12

Paragraph (1)

Sufficiently clear.

Paragraph (2)

Sufficiently clear.

Paragraph (3)

The term “close-out netting” means a process to terminate all Rupiah Interest Rate Derivative Transactions through netting of the value of rights or liabilities of a defaulting party.

Paragraph (4)

Sufficiently clear.

Article 13

Paragraph (1)

Sufficiently clear.

Paragraph (2)

In applying the prudential principles, a Bank must refer to the laws and regulations on consumer protection, arbitration, dispute resolution alternatives, and other laws and regulations.

Letter a

Sufficiently clear.

Letter b

A Bank’s obligations to apply information transparency in conducting marketing, offering, and implementation of Rupiah Interest Rate Derivative Transactions among others include:

1. disclose complete, accurate and not misleading information to customers;
2. ensure providing balanced information between the potential benefits and risks arising to Customers from Rupiah Interest Rate Derivative Transactions; and
3. ensure the provided information does not disguise, reduce, or conceal important matters related to

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potential risk from Rupiah Interest Rate Derivative Transactions.

Letter c

Consumer protection by a Bank is applied among others through application of good governance in reviewing parties conducting Rupiah Interest Rate Derivative Transactions with the Bank.

Letter d

Dispute resolution mechanism may be specified in a contract and/or internal procedure.

Paragraph (3)

Sufficiently clear.

Paragraph (4)

Education is given to provide information for Customers on the benefits and risks of Rupiah Interest Rate Derivative Transactions.

Paragraph (5)

The term “employee or staff conducting treasury activities” means any employee or staff of a Bank performing front office functions, namely sales, trader, and/or management.

Article 14

Provisions of authority on application of Bank’s risk management among others specify that a Bank is required to effectively apply risk management which at least includes:

- a. active supervision of the board of commissioners and board of directors;
- b. adequacy of policies, procedures, and determination of limits;
- c. adequacy of identification, measurement, monitoring, and control of risks as well as risk management information system; and
- d. comprehensive internal control system.

Article 15

Sufficiently clear.

Article 16

Paragraph (1)

Reporting system of Bank Indonesia among others include daily reports of commercial banks, monthly reports of commercial banks, and reports of commercial bank’s headquarter.

Paragraph (2)

Sufficiently clear.

Article 17

Sufficiently clear.

Article 18

Sufficiently clear.

Article 19

Sufficiently clear.

Article 20

Sufficiently clear.

Article 21

Sufficiently clear.

Article 22

Sufficiently clear.

Article 23

Sufficiently clear.